

Bonds that are Syncora Securitization Bonds in the absence of the DSRF surety from Transition Charge excess cash following interest paid on Tranche A Bonds, and (ii) an upfront one-time DSRF surety fee equal to 2% of the DSRF requirement with respect to Tranche A Bonds that are Syncora Securitization Bonds. Such DSRF Surety shall only secure the Tranche A Bonds that are Syncora Securitization Bonds.

d) Insurance Premiums: To the extent that Syncora insures any Syncora Securitization Bonds, Syncora will be entitled to receive a premium that (a) in the case of any Tranche A Bonds that it insures, will be payable in each year during which such Tranche A Bonds are outstanding, will be equal to 0.50% per annum of the principal amount of such Tranche A Bonds that were outstanding as of the first day of such year and will be payable from and secured by the Transition Charge revenues on a *pari passu* basis with interest on Tranche A Bonds, and (b) in the case of any Tranche B Bonds that it insures, will be a one-time premium payable in form of Tranche A Bonds having a principal amount equal to 2% of the expected aggregate cash flow of such Tranche B Bonds. If Syncora cannot insure Syncora Securitization Bonds because of the failure to satisfy the Insurance Conditions, then Syncora shall not be entitled to an insurance premium.

XVI. National Treatment.

The Plan shall provide for the following treatments with respect to National on the account of the National Insured Bonds and the Uninsured Bonds identified on National's signature page hereto that are beneficially owned by National, which treatments shall be selected by National in its sole discretion on or prior to the hearing on the disclosure statement:

a) National Election: At National's election (the "**National Election**"), all or any portion of the National Insured Bonds selected by National shall be paid, in full, on the Effective Date, at the Acceleration Price from (a) the proceeds of all or any portion of the National Securitization Bonds allocable to holders of National Insured Bonds that shall be (i) insured, at National's election, in accordance with a new insurance policy issued by National on terms acceptable to National; provided, however, National may only insure any portion of the National Securitization Bonds if the Insurance Conditions are satisfied, (ii) underwritten in an "offering" within the meaning of SEC Rule 15c2-12 and (iii) sold into the market such that they are issued and delivered to such underwriter(s) on the Effective Date, and (b) to the extent such proceeds of National Securitization Bonds are not sufficient to pay the Acceleration Price, amounts equal to such deficiency paid by National in accordance with the insurance policies (the "**National Insurance Policies**") guaranteeing the National Insured Bonds. In addition, at National's election (but subject to the Insurance Conditions), all or any of National Securitization Bonds allocable to National as a beneficial owner of Uninsured Bonds identified on National's signature page hereto, or that National is otherwise entitled to receive in accordance with the terms of this Definitive RSA, shall be insured, offered and underwritten in the same manner as National Securitization Bonds allocable to holders of National Insured Bonds would be required to be insured, offered and underwritten if National exercised the National Election in respect of such National Insured Bonds, and any proceeds of the sale of such National Securitization Bonds shall be transferred to National. The principal amounts, maturities and interest rates on the National Securitization Bonds in respect of which any of the foregoing elections is exercised, shall be determined by National in consultation with the applicable underwriter(s), such that the interest rates on the National Securitization Bonds shall be the lowest interest rates necessary for such National Securitization

Bonds to be issued with increased par amounts relative to other Securitization Bonds and otherwise result in the National Securitization Bonds being issued at the lowest aggregate yield; provided, however, that the annual debt service on the National Securitization Bonds due in any fiscal year shall not be greater than the annual debt service that would have been due in such fiscal year if such National Securitization Bonds had the same terms as the other Securitization Bonds. The costs associated with the issuance of the National Securitization Bonds (including the fees and compensation of the applicable underwriter(s)) shall be paid by PREPA and shall not be withheld from the proceeds of the National Securitization Bonds. The offering and underwriting of the National Securitization Bonds shall be provided for in the Plan or in connection with providing the Stipulated Treatment, provided, however, that if either (i) at or prior to the time of pricing of National Securitization Bonds, National determines, based on its good faith evaluation of the circumstances, that National Securitization Bonds cannot be sold into the market on terms acceptable to National or (ii) such National Securitization Bonds are not issued to the underwriter(s) for any reason, then in either case, National (A) may elect, in its sole discretion, to pay the applicable Acceleration Price (such payment election, the “**National Acceleration Price Payment Option**”) to the holders of any National Insured Bonds with respect to which National has exercised the National Election, and (B) shall receive, on the Effective Date, the National Securitization Bonds in respect of which the National Acceleration Price Payment Option is exercised and any other National Securitization Bonds allocable to National or that National is otherwise entitled to receive hereunder, which National Securitization Bonds may, at National’s election, be insured in accordance with a new insurance policy issued by National on terms acceptable to it, subject to the Insurance Conditions. The Plan shall provide that payment of the applicable Acceleration Price with respect to any National Insured Bond in accordance with the National Election shall satisfy and discharge all of National’s obligations under the National Insurance Policies with respect to such National Insured Bond.

b) National Bondholder Elections: In the event that National declines to make the National Election with respect to any National Insured Bonds as described above (or makes the National Election but declines to exercise the National Acceleration Price Payment Option upon the occurrence of any event that gives National the right to exercise such option as described above), the Plan or Stipulated Treatment provision may offer each beneficial holder of an National Insured Bond with respect to which National has not made the National Election any one or more of the following options (collectively, the “**National Bondholder Elections**”), in each case on terms acceptable to National: (1) National Bondholder Election 1, pursuant to which such holder shall receive from National the applicable Acceleration Price on the Effective Date in full satisfaction and discharge of National’s obligations with respect to such holder under the applicable National Insurance Policies, and National shall receive National Securitization Bonds allocable to such holder under the Plan that may, at National’s election, be insured in accordance with a new insurance policy issued by National on terms acceptable to it; (2) National Bondholder Election 2, pursuant to which such holder shall opt into a custodial trust, escrow arrangement, or similar structure established by National that would provide such holder with an interest in the applicable National Insurance Policy and National Securitization Bonds allocable to such holder in accordance with terms acceptable to National; or (3) National Bondholder Election 3, pursuant to which such holder shall, on the Effective Date, and in full satisfaction and discharge of National’s obligations under the applicable National Insurance Policies, receive (i) the National Securitization Bonds allocable to such holder under the Plan, which National Securitization Bonds may, at National’s election, be insured in accordance with a new insurance policy issued by

National on terms acceptable to National, and (ii) additional consideration from National in the form of cash or National Securitization Bonds that National is otherwise entitled to, in the sole discretion of National, in an amount to be determined or defined by National prior to the hearing on the disclosure statement. Any new insurance policy issued by National pursuant to any of the National Bondholder elections under this Agreement must be for a term of no less than one year and the interest rate on such insured National Securitization Bonds must be the lesser of (y) the interest rate determined by the Insurance Conditions, if applicable, and (z) 35 basis points lower than the interest rate on the corresponding tranche of uninsured Securitization Bonds. The National Bondholder Elections offered to National Insured Bondholders shall include at least either National Bondholder Election 1 or National Bondholder Election 2. In the event that National Bondholder Election 1 is not one of the options offered, the structure, terms, and conditions of the custodial trust, escrow arrangement or similar structure established as part of National Bondholder Election 2 must be reasonably acceptable to National and the Government Parties and the interests granted therein must be DTC eligible, provided that such custodial trust, escrow arrangement or similar structure will be deemed to be reasonably acceptable to the Government Parties if it is consistent with either one of the structures set forth in Annex B hereto. In the event a National Bondholder fails to make a timely election or makes an election for less than all of its National Insured Bonds, such National Bondholder will be deemed to have elected Election 3 for all National Insured Bonds not subject to a timely election (unless otherwise provided in the Plan).

c) DSRF Surety: National may, at its election, provide a DSRF surety to satisfy the DSRF requirement with respect to Tranche A Bonds that are National Securitization Bonds, which DSRF surety will be in effect during the entire term of such Tranche A Bonds. Any reimbursement obligation with respect to such DSRF surety will be secured and payable from the portion of the Transition Charge allocable to National Securitization Bonds, subordinate only to interest on Tranche A Bonds secured by such DSRF Surety. In exchange for such DSRF surety, National will be entitled to receive (i) additional Tranche A Bonds having a principal amount equal to the present value of the projected cash flow that would fund the DSRF requirement with respect to Tranche A Bonds that are National Securitization Bonds in the absence of the DSRF surety from Transition Charge excess cash following interest paid on Tranche A Bonds, and (ii) an upfront one-time DSRF surety fee equal to 2% of the DSRF requirement with respect to Tranche A Bonds that are National Securitization Bonds. Such DSRF Surety shall only secure the Tranche A Bonds that are National Securitization Bonds.

d) Insurance Premiums: To the extent that National insures any National Securitization Bonds, National will be entitled to receive a premium that (a) in the case of any Tranche A Bonds that it insures, will be payable in each year during which such Tranche A Bonds are outstanding, will be equal to 0.50% per annum of the principal amount of such Tranche A Bonds that were outstanding as of the first day of such year and will be payable from and secured by the Transition Charge revenues on a *pari passu* basis with interest on Tranche A Bonds, and (b) in the case of any Tranche B Bonds that it insures, will be a one-time premium payable in form of Tranche A Bonds having a principal amount equal to 2% of the expected aggregate cash flow of such Tranche B Bonds. If National cannot insure National Securitization Bonds because of the failure to satisfy the Insurance Conditions, then National shall not be entitled to an insurance premium.

ANNEX A TO RECOVERY PLAN TERM SHEET:

**Securitization Term Sheet
Summary of Major Terms**

This term sheet (the “**Securitization Term Sheet**”) is intended to set forth certain agreements of the Parties with respect to the Securitization Bonds to be issued in accordance with the Definitive RSA and the exhibits, schedules and annexes thereto to which this Securitization Term Sheet is attached (collectively, the “**Agreement**” or “**RSA**”) and to set forth certain provisions in addition to those set forth in the Recovery Plan Term Sheet. This Term Sheet does not address all material terms that would be required to consummate the transactions set forth in the RSA, the Recovery Plan Term Sheet and this Securitization Term Sheet and is subject to Definitive Documentation.

Capitalized terms used in this Securitization Term Sheet that are not explicitly defined herein shall have the meanings ascribed to them in the RSA. The provisions of this Securitization Term Sheet shall be subject to and governed by the RSA, including the Rule of Interpretation set forth therein.

This Term Sheet does not constitute (nor shall it be construed as) an offer with respect to any securities.

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| Legislation | Act 4-2016 shall be amended or other legislation shall be enacted to govern the Securitization Bonds and implement the transactions contemplated by the RSA, the Recovery Plan Term Sheet and this Securitization Term Sheet (the “ Amended Act ”). Enactment of the Amended Act, as set forth in “Conditions Precedent” below, is a condition precedent to the Effective Date unless otherwise consented to by the Required Parties. | |
| Issuance of Securitization Bonds | Securitization Bonds shall be issued on the Effective Date of the Plan pursuant to and secured by a trust agreement (the “ Securitization Trust Agreement ”). | |
| Interest Accrual; Interest Payment Dates | <p>Interest on the Securitization Bonds will accrue (as applicable) at a fixed rate and be computed on a 30/360 basis and be due as follows:</p> <p>For Tranche A Bonds:</p> <ul style="list-style-type: none"> Interest will accrue (and, to the extent not paid, compound) and be payable semi-annually, on each January 1 and July 1 (each, an “Interest Payment Date”) at the coupon rate and on the terms set forth in the Recovery Plan Term Sheet. First scheduled Interest Payment Date is [January 1, 2021]¹. | <p>For Tranche B Bonds:</p> <ul style="list-style-type: none"> Interest will accrue, accrete, and be compounded semi-annually (on each Interest Payment Date) at the coupon rate set forth in the Recovery Plan Term Sheet.² |

¹ Initial Interest Payment Date shall be set based on issuance date of Securitization Bonds.

² The Required Parties shall work collaboratively to maximize the tax benefits related to the Tranche B Bonds, including altering the structure and terms thereof in a manner that preserves equivalent economics and does not have an adverse effect on the Government Parties or Supporting Holders.

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| Tranche A Expected Scheduled Retirement Date; Bond Structure | The Tranche A Bonds are expected to mature in 33 years (according to FOMB's May 2018 projections, which are subject to change, including with respect to demand projections) and shall have a stated final maturity of 40 years, subject to earlier mandatory redemption from Transition Charge Revenues ³ remaining after all other required payments in accordance with "Priority of Payment" below have been satisfied; <u>provided</u> , that maturity of Tranche A Bonds (including accrual and compounding of interest as set forth in the RSA/Plan Term Sheet) will extend beyond their stated final maturity and such Tranche A Bonds will remain outstanding if not paid in full on the stated final maturity until all principal of, and accrued and unpaid interest on, the Tranche A Bonds is paid in full. For the Uninsured Securitization Bonds, any cash on deposit in the DSRF shall be used to pay such Bonds at maturity (or prior to maturity if the amount on deposit in the DSRF equals or exceeds the remaining debt service on such Bonds) and any excess therein shall thereafter be used to pay the Tranche B Bonds. |
| Tranche B Expected Scheduled Retirement Date; Bond Structure | The Tranche B Bonds shall be structured as capital appreciation bonds ⁴ with a stated final maturity of 47 years, subject to mandatory redemption after payment in full of all amounts outstanding on the Tranche A Bonds from (1) for the Uninsured Securitization Bonds, any cash remaining on deposit in the DSRF after no Tranche A Bonds are outstanding under the Securitization Trust Agreement and (ii) for all Securitization Bonds, all cash flow from Transition Charge Revenues remaining after all other required payments in accordance with "Priority of Payment" below have been satisfied; <u>provided</u> , that any amounts on the Tranche B Bonds not paid with Transition Charge Revenues imposed prior to the stated final maturity of the Tranche B Bonds shall not be recoverable by Bondholders. |
| Denominations | Integral multiples of \$1.00 or such higher amount required by DTC. |
| Restructuring Resolution; Financing Costs | Simultaneously with the consummation of the Plan, the Issuer shall adopt a restructuring resolution (the " Restructuring Resolution ") in form and substance acceptable to the Required Parties, which resolution shall be adopted by the Issuer simultaneously with the consummation of the Plan, create and constitute part of the Restructuring Property ⁵ and approve the issuance of Securitization Bonds, the incurrence of other Secured Obligations (as defined in the Securitization Protections Term Sheet) and |

³ "Transition Charge Revenues" means any money or other property received or to be received on account of the Transition Charges, and all proceeds of the investment thereof.

⁴ Any references in the RSA/Plan Term Sheet to PIK Payments or payment in kind of interest on the Tranche B Bonds shall be understood to refer to accrual, accretion, and semi-annual compounding of interest of capital appreciation bonds.

⁵ "Restructuring Property" (i) means a Restructuring Resolution and the property rights and interests created thereby, including the title and right to, and the interest in: (a) the right to receive Transition Charges; (b) the Transition Charges, as adjusted from time to time if required under the Definitive Documents, including any rights under a Servicing Agreement assigned pursuant to the Securitization Trust Agreement; (c) all revenues, collections, claims, payments, money, or proceeds on account of the Transition Charges or constituting Transition Charges, regardless of whether such revenues, collections, claims, payments, money, or proceeds are billed, received, collected or maintained by PREPA or by the Issuer together with or commingled with other revenues, collections, claims, payments, money, or proceeds; (d) all rights relating to the Transition Charges pursuant to the terms of the Restructuring Resolution related thereto (including as provided in the Demand Protection Term Sheet); and (e) all reserves established in connection with the Securitization Bonds or the Restructuring Property. For the avoidance of doubt, Restructuring Property shall not include any other charges, other property of the Issuer, property of PREPA or federal funds received by PREPA, the Government or any Government Entity.

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| | <p>the imposition and collection of the Transition Charges and Financing Costs in accordance with the terms hereof. The Restructuring Resolution shall address such other matters as may be necessary or desirable for the servicing of the Restructuring Property, with such terms and conditions agreed upon by the Required Parties. The Restructuring Resolution shall be irrevocable.</p> <p>“Financing Costs” shall be defined in, and shall be subject to, any restrictions set forth in the Restructuring Resolution or Securitization Trust Agreement but shall at a minimum include items 1, 2, 3, and 7 in “Priority of Payment” below and compensation for the Issuer’s board, and director and officer insurance for the Issuer, and the Transition Charge shall adjust to cover such Financing Costs in the manner set forth in the Definitive Documents; provided, that general Issuer expenses shall be allocated among Securitization Bonds and any other debt issued by the Issuer.</p> |
| Administrator | <p>To the extent that the Issuer acts through, or contracts with, an administrator (the “Administrator”), such Administrator shall enter into an Administration Agreement governing its employment. The Required Parties must agree on the identity of the Administrator (including whether the Administrator will be a third-party Servicer), but shall not be any Government Entity or employee thereof.</p> |
| Securitization Trustee | <p>The Securitization Trustee for the initial issuance of Securitization Bonds shall be a mainland financial institution (to the extent available) agreed upon by the Required Parties and shall hold all accounts associated with the Securitization Bonds at a mainland branch.</p> |
| Servicer | <p>The servicer⁶ of the Transition Charge (the “Servicer”) shall be a concessionaire, operator or other service provider for the System⁷ (or other party agreed upon by the Required Parties).</p> <p>The Issuer and the Servicer shall become a party to a servicing agreement (the “Servicing Agreement”), and which shall include, among others, the terms and conditions set forth herein and other terms and conditions consistent with prudent mainland utility securitizations, taking into account appropriate adjustments to reflect the structure of this transaction and feasibility in light of PREPA’s system, and shall at a minimum include the following:</p> <ul style="list-style-type: none"> • A covenant that the Servicer obtain meter reads, calculate or estimate electricity usage, and bill the Transition Charges to the customers as a separate line item on electric bills; • A covenant that, if the Servicer receives any billed amounts from customers in respect of electricity charges, Transition Charges, and/or other charges, the Servicer shall promptly transfer such receipts to a third-party collection agent agreed upon by the Required Parties and the |

⁶ Certain minimum standards that would have to be met by a Servicer will be included in the Definitive Documentation. PREPA may also act as Servicer during any transition period to any concessionaire, operator, or other service provider; provided, that the Definitive Documentation shall provide separate servicer terms and servicing standards specific acceptable to the Required Parties to PREPA or another Government Entity. References herein to PREPA acting as Servicer includes PREPA or any other Government Entity acting as Servicer, even on a temporary basis.

⁷ System shall have the definition given to it in Demand Protection Term Sheet.

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| | <p>Servicer that meets the requirements set forth below (the “Depository”), and covenants addressing how charges from customers that do not pay in person shall be remitted to the Depository; in order to maximize collections the Required Parties may agree on provisions providing for collection and aggregation in other accounts prior to remittance to the Depository, including in accounts established and held by financial institutions in Puerto Rico;</p> <ul style="list-style-type: none"> • A covenant that the Servicer use commercially reasonable efforts to collect all Transition Charges; provided, that if the Servicer is PREPA, the Servicing Agreement shall include specific requirements acceptable to the Required Parties for collection of the Transition Charges; • Daily allocation of Transition Charges and electricity and other charges by the Depository; provided, that the Required Parties will agree on provisions concerning such allocation, which may include provisions that amounts will be allocated based on actual amounts on deposit in the particular account after all transactions have been confirmed and reconciled; • A covenant that the Servicer provide to the Issuer, the Securitization Trustee on behalf of the Secured Parties (as defined in the Securitization Protections Term Sheet) (or, if different, any owner of all or any portion of the Restructuring Property), any rating agency rating the Securitization Bonds, and, if applicable, the Servicing Monitor commercially reasonable reporting as set forth in the Definitive Documents;⁸ <u>provided</u>, that the Definitive Documents shall address the ability of the Securitization Trustee to share information with the Secured Parties; and • Covenants acceptable to the Servicer regarding termination of service to customers, termination of access to the System, and making use of intercept provisions, including a prohibition on discriminating between treatment of the Transition Charge and other electric charges. |
| Servicing Agreement | <p>The Servicing Agreement shall further (and subject, in each case, to the terms and conditions of the Servicing Agreement):</p> <ul style="list-style-type: none"> • set forth the Servicer’s compensation, which compensation shall be reasonable, market-based compensation; • include deposit, allocation, and periodic reconciliation requirements; • authorize the Securitization Trustee to replace the Servicer⁹ or appoint a co-servicer or other additional or special servicer under the conditions set forth in the Servicing Agreement; and |

⁸ To the extent the Servicer is PREPA, the Servicer must provide such financial information in respect of the Servicer, or material information regarding the Restructuring Property, as may be necessary for the Issuer, Securitization Trustee (or such other owner of the Restructuring Property), any rating agency rating the Securitization Bonds, and the Servicing Monitor (if applicable) to monitor the Servicer’s performance under the Servicing Agreement, perform their respective duties, and determine compliance by the Servicer with the Servicing Agreement.

⁹ References to replacement of the Servicer throughout this Term Sheet, the RSA and the related documents shall mean replacement of the Servicer in such capacity only and not in any other capacity.

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| | <ul style="list-style-type: none"> contain other provisions, including for resignation or removal, and replacement, of the Servicer as set forth in the Servicing Agreement, including for failure to take collection actions required by the Servicing Agreement. <p>The Servicing Agreement may also include provisions regarding the appointment of a backup servicer, co-Servicers or subservicers, which shall include the terms regarding the backup servicer, co-Servicers, and subservicers set forth in the Demand Protection Term Sheet.</p> <p>The Servicing Agreement shall also provide for the option on the part of the Servicer to make advances to the Issuer with respect to Transition Charge receivables.</p> |
| Depository | <p>Amounts held by the Depository shall be allocated between Transition Charges, electricity charges, and other permitted charges and transferred daily to the Securitization Trustee (in respect of Transition Charge collections), to the Servicer for payment to PREPA or any successor(s)¹⁰ (in respect of electric and other charges), or to the owner of any other permitted charges (in respect of such other permitted charges) in accordance with a methodology agreed upon by the Required Parties. Such allocation and transfer shall be periodically reviewed by the Servicing Monitor (if applicable) and corrected by the Servicer based on the direction of the Servicing Monitor. The Securitization Trustee shall receive and hold all such amounts in a segregated deposit account. All Transition Charge Revenues shall be and remain property of the Issuer, and, except as otherwise provided in connection with Permitted Indebtedness, all collections that are not Transition Charge Revenues shall be and remain property of PREPA or its successor.</p> <p>The Servicer will be expressly prohibited in the Servicing Agreement from acting as Depository in respect of the Transition Charges. If the Servicer receives any Transition Charges, such receipt will be in its capacity as agent of the Issuer only, and the Servicer will hold such Transition Charges in trust for the exclusive benefit of the Issuer, Securitization Trustee, and the Secured Parties. The Servicer shall take such action necessary to direct third parties to turn over Transition Charges and electric and other charges to the Depository. Transition Charges shall not lose their character as Restructuring Property by virtue of possession by the Servicer, the Depository or any other party, and such Transition Charges shall be transferred as soon as possible to the Depository.</p> <p>The Depository shall be a mainland financial institution (to the extent available), agreed upon by the Required Parties, that is not related to the Government of Puerto Rico (the “Government”) or any of its agencies, departments, public corporations, trusts, funds, systems, instrumentalities, political subdivisions, taxing authorities, or regulatory bodies (each, a “Government Entity”) and that holds its accounts on the mainland.¹¹</p> |

¹⁰ References to “successor” in this provision shall refer to any person who bills or collects electricity rates in Puerto Rico.

¹¹ The Definitive Documents shall incorporate mechanics acceptable to the Required Parties that address, to the extent applicable, electronic transaction fees and other amounts that are collected or aggregated in Puerto Rico.

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| | <p>The Securitization Trust Agreement shall authorize the Securitization Trustee to replace the Depository, subject to terms and conditions agreed upon by the Required Parties.</p> <p>The Definitive Documents shall provide the investment standards for funds held by the Depository and the Securitization Trustee; provided, that neither the Depository nor the Securitization Trustee shall hold any accounts at or invest in AAFAF or any other Government Entity.</p> <p>In the event that a Depository cannot be identified to perform the responsibilities set forth above, the Servicing Agreement shall provide another methodology for allocating collections acceptable to the Required Parties and the Servicer.</p> |
| Servicing Monitor | <p>Solely if PREPA is acting as Servicer, a third-party servicing monitor (not affiliated with the Government or any Government Entity) (in such capacity, “Servicing Monitor”) agreed upon by the Required Parties will be appointed and retained to confirm the Servicer’s calculation and implementation of Transition Charges (including the implementation mechanisms described on the Demand Protection Term Sheet) and to review any allocation and transfer instructions provided by the Service to the Depository.¹² The Servicing Monitor shall also have the right to review the Servicer’s billing and collection practices. The Servicing Monitor shall act as an agent of the Securitization Trustee on behalf of the Secured Parties.</p> <p>The Securitization Trust Agreement shall include the qualifications for the Servicing Monitor and shall allow the Securitization Trustee to remove and replace the Servicing Monitor.</p> <p>In case of a dispute between the Servicing Monitor and the Servicer, an independent expert shall be appointed.</p> <p>The Servicing Monitor shall be in place no later than the Effective Date.</p> |
| Restructuring Property; Security; Lien | <p>The Restructuring Property will be as described in the Amended Act and in the Restructuring Resolution.</p> <p>In addition to the statutory lien on the Restructuring Property granted pursuant to and set forth in the Amended Act, the Issuer shall also grant the Secured Parties a supplemental security interest in the Restructuring Property and in all funds and accounts held by the Securitization Trustee thereunder, to secure the Secured Obligations.</p> <p>The lien of the Secured Parties shall have priority over any other lien (other than the statutory lien) on the Restructuring Property, and the Securitization Trust Agreement shall not permit any other lien on the Restructuring Property senior to the lien of the Secured Parties (other than the statutory lien).</p> |

¹² If the Servicer is a mainland third party that meets certain standards, then all information that would have gone to the Servicing Monitor must go to the Securitization Trustee (with permission to share with holders of Securitization Bond subject to terms of the Securitization Trust Agreement), but no Servicing Monitor is necessary. In the event of a dispute between the Trustee or any holder and the Servicer, an independent expert shall be appointed.

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| | The Securitization Trustee shall have the right to foreclose on all Restructuring Property and sell such Restructuring Property for the sole benefit of the Secured Parties. |
| Priority of Payment | <p>On each payment date in respect of principal and interest, all amounts of the Transition Charge Revenues allocable to the Securitization Bonds will be available to pay the following amounts in the following priority (except as may otherwise be agreed upon by the Required Parties and subject to agreement on the allocation of the Transition Charge Revenues between the Uninsured Securitization Bonds and the Assured Securitization Bonds):</p> <ol style="list-style-type: none"> 1. Fees, costs, and expenses owed to the Securitization Trustee 2. Depository and, if applicable, Servicing Monitor fees 3. Servicer fees and related agent and/or administrator fees 4. Interest on Tranche A Bonds¹³ 5. Initial funding of the Debt Service Reserve Fund (expected to occur over a nine-year period) 6. So long as the Tranche A Bonds are outstanding, replenishment of Debt Service Reserve Fund to required reserve level 7. Indemnity amounts owed to the Securitization Trustee 8. All remaining Transition Charge Revenues shall be applied to the mandatory redemption of Tranche A Bonds at a redemption price of par plus accrued interest to the applicable redemption date and, upon payment in full of the Tranche A Bonds, for the mandatory redemption of the Tranche B Bonds at a redemption price of par plus accrued interest to the applicable redemption date; <p>provided, that for the Transition Charge Revenues allocable to the Assured Securitization Bonds, (i) interest on Tranche A Bonds that are Assured Securitization Bonds and premium payments payable to Assured with respect to any insurance policy insuring such Tranche A Bonds shall be payable on a <i>pari passu</i> basis; and (ii) the funding and replenishment of the DSRF will be replaced by the payment of any reimbursement obligation with respect to any DSRF surety.</p> |
| Partial Payments Allocated Pro Rata | Any partial payments by customers shall be allocated pro rata between the Issuer (in respect of the Transition Charges), PREPA or any successor(s) ¹⁴ (in respect of the electric and other charges), and the owner of any other charges (in respect of such other charges) such pro rata allocation to be based upon the relative amounts of the Transition Charges, the PREPA charges, and the other charges as a part of the total bill; provided, that any applicable Puerto Rico taxes and Government-imposed fees (including any taxes or fees imposed by a Government Entity) shall be covered by an increase in the Transition Charge so that debt service is not effected; and provided further, that if the Issuer agrees to increase the charge to cover federally imposed taxes or fees in an issuance of additional bonds permitted under the |

¹³ To the extent the Servicer is PREPA, interest on Tranche A Bonds shall be paid before servicer fees.

¹⁴ References to "successor" in this provision shall refer to any person who bills or collects electricity rates in Puerto Rico.

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| | Securitization Trust Agreement, the Transition Charge shall also be entitled to such increase. |
| Events of Default | <p>The Securitization Trust Agreement shall include the following events of default and such other events of default as are agreed upon by the Required Parties:</p> <ul style="list-style-type: none"> • Any violation of the Plan or the Confirmation Order, including violation of covenants by the Government or any Government Entity, subject to such notice and cure periods, if any, set forth in the Securitization Trust Agreement; • Covenant defaults by the Issuer subject to such notice and cure periods, if any, as are agreed upon by the Required Parties; • An event of default under the Servicing Agreement, Servicing Monitor Agreement, Administration Agreement, or Depository Agreement as are agreed to by the Required Parties; provided, that the remedy for any cross-default under the Servicing Agreement shall be solely the replacement of the Servicer unless otherwise agreed by the Required Parties; • Bankruptcy defaults agreed upon by the Required Parties; • Any act or failure to act by the Government or any Government Entity (including the Issuer) that violates or is not in accordance with the Amended Act, the Restructuring Resolution, the Securitization Trust Agreement, or other Securitization Documents; • The Government or any Government Entity (including the Issuer) breaches its covenants subject to such materiality standards, if any, set forth in the Securitization Trust Agreement; and • Failure to pay principal on the final maturity date of the Tranche A Bonds. |
| Governance | The Issuer's governance shall be as set forth in the Amended Act and the Securitization Trust Agreement. |
| Remedies | <p>Remedies will be set forth in the Definitive Documents and will include, at a minimum, the right to replace the Servicer and the right to enforce the Securitization Trust Agreement, the Servicing Agreement, and the Government's covenants. Requirements for replacement Servicer to be part of Definitive Documents.</p> <p>The Issuer, the Securitization Trustee, the Secured Parties, and any owner of all or a portion of the Restructuring Property shall have the rights set forth in the Amended Act and the Restructuring Resolution, along with other rights and remedies set forth in the Definitive Documents.</p> <p>Neither the Transition Charge levels (including the TC Cap), duration, nor applicable coupon rates on the Securitization Bonds shall change as a result of an event of default.</p> |
| Additional Provisions | Actions that comply with law or regulation but that violate provisions of the Securitization Documents shall constitute a default; provided, that a third- |

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| | <p>party Servicer shall not incur liability for violations of the Securitization Documents due to its compliance with law or regulation.</p> <p>The Transition Charge shall be billed and implemented in the manner and using the requirements set forth in the Amended Act and the Definitive Documents.</p> <p>The definitive documents related to a Transformation Transaction shall include customary covenants agreed to by the counterparty to the Transformation Transaction related to the maintenance of the tax-exemption on any Securitization Bonds.</p> |
| Additional Permitted Indebtedness | <p>The Definitive Documents shall provide that, at any time, Puerto Rico or PREPA and its subsidiaries and their respective legal successors (collectively, the “PREPA Parties”)¹⁵ or any Concessionaire (as defined below), to the extent such Concessionaire is issuing debt payable from charges, taxes, or other fees on Puerto Rico electricity, shall be permitted (i) to incur additional Indebtedness (as defined in the Securitization Trust Agreement)¹⁶ to fund costs related to the System, (ii) to impose charges, taxes, or other fees on electricity, or (iii) to grant liens in support of any such Indebtedness as provided below; provided that any such incurrence or imposition shall be done solely through a PREPA Party or the Issuer and shall be under and subject to the following conditions and requirements.</p> <p>A. Any additional Indebtedness issued must be solely for the following purposes:</p> <ol style="list-style-type: none"> 1. Indebtedness incurred in anticipation of receipt by any of the PREPA Parties, the Commonwealth or another governmental entity of funds from any agency of the U.S. Federal government, provided (x) such funds have been committed by such agency, (y) the Indebtedness being incurred is solely related to the System for purposes for which such funds have been committed and not for any other use, and (z) the designated recipient of the funds has agreed, to the extent permitted by applicable law, to turn over (and if permissible, pledge) such funds to the repayment of the additional Indebtedness incurred hereunder; 2. Indebtedness incurred to meet any local match or cost sharing requirements relating to receipt of funding related to the System to be received from any agency of the U.S. government; |

¹⁵ For the avoidance of doubt, PREPA Parties shall not include entities set up for the purpose of issuing debt.

¹⁶ Neither the Issuer nor any PREPA Party may incur Indebtedness except as set forth above; provided, however, that with respect to PREPA Parties only, “Indebtedness” shall not include indebtedness or obligations or expenditures that are (i) incurred in the ordinary course of business, (ii) related to the operation of the System, and (iii) payable from collections that (x) are revenues of PREPA and (y) are not Transition Charge Revenues or revenues specifically allocated to Permitted Indebtedness.

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| | <ol style="list-style-type: none"> 3. Indebtedness incurred to cover any capital requirements for the System; 4. Indebtedness incurred to fund a cash operating reserve, related to the System on or after exit from Title III in an amount not to exceed the greater of (a) an amount equal to ninety days of projected operating expenses or (b) the amount required by the Concessionaire; provided, that if the amount required under clause (b) exceeds the amount in clause (a), then the amount of such excess shall be repaid within five years of the date of borrowing; 5. Indebtedness incurred to finance emergency response to a major disaster or emergency directly related to the System in response to an emergency declaration requested by the Governor of the Commonwealth and declared by the President of the United States pursuant to the Stafford Act or similar or successor Federal law; or 6. Indebtedness incurred to refinance, in whole or in part, any indebtedness permitted by A.1 through A.5 above subject to the same restrictions as the Indebtedness being refinanced. <p>B. The issuance of any additional Indebtedness must meet the following standards:</p> <ol style="list-style-type: none"> 1. Unless such funds are otherwise permitted pursuant to A.4(a) or A. 5 above, a private operator, manager or concessionaire (the “Concessionaire”) is operating the System, and the amounts of additional Indebtedness are (a) deemed appropriate by the Concessionaire to fund capital expenditures related to the System or necessary for the other purposes set forth in A.1 through A.6 above and (b) included in the budget or long-term plan approved by the Concessionaire (and, to the extent required, PREB) for the System; 2. The issuance of additional Indebtedness has received all necessary approvals, including, to the extent required by applicable law, approvals by PREB, FOMB, and the Board of PREPA or the Issuer (as applicable); provided, that with regard to the Issuer, the Issuer’s governance documents shall require that its board approve all additional issuances by the Issuer and the Confirmation Order shall provide that this provision cannot be changed; 3. The additional Indebtedness must have a dedicated transition charge, statutory charge, or other tax or revenue stream or be funded from revenues generated from the electricity rate including, to the extent required, an |
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